



Syrah Resources Ltd (SYR.ASX)

FID and equity raise launches next phase

Event:

- Vidalia FID; Equity Raising; Earnings and PT changes.

Investment Highlights:

- Vidalia initial expansion launches with FID approval and US\$178M (\$250M) equity raising.** These follow significant recent progress including binding offtake for active anode material (AAM) with Tesla; updated BFS; and receipt of all approvals. Equity raised was greater than we had expected due to higher capex and debt taking longer to be secured.
- Initial expansion upsized to 11.25ktpa from 10ktpa from optimised BFS,** which also results in lower AISC (US\$3,109/t vs US\$3,149/t in 2020 BFS) but 28% higher capex (US\$176M vs US\$138M), the latter mostly from inflation. We had previously factored US\$152M capex for 10ktpa.
- Updated BFS on a 45ktpa stage (previously 40ktpa) completing in CY22.** As per the 11.25ktpa expansion, we expect both lift in capacity and inflation to contribute to a rise in the original US\$477M capex. We now estimate 45ktpa capex to be US\$578M vs our prior estimate of US\$525M (inclusive US\$176M for 11.25ktpa capacity), leaving a balance of US\$402M to build the 45ktpa stage.
- Further offtakes in next 18 months.** We expect at least one to two further binding offtakes for the balance of the 11.25ktpa and/or some of the 45ktpa, between now and commissioning of the initial expansion. Selling points include Tesla agreement signifying credibility; Construction start of commercial facility; Single chain of custody from ore to AAM; Wholly independent of China, with AAM created in the US; and ESG LCA credentials.
- Low cost debt with US DOE targeted for end June.** SYR applied for US\$100-\$125M debt from the US Department of Energy (DOE) for Vidalia in June 2021. Terms are subject to negotiation, while interest is at US treasury rates. SYR recently received a non-binding term sheet, which it is reviewing. We believe progress is well advanced, and the company is targeting closing financing by June 2022. This would free up equivalent amount of the equity raise for other initiatives including funding the 45ktpa expansion.
- Upgrades to graphite prices.** We upgrade our price forecasts given continuing strong market conditions.

Earnings and Valuation:

- Downgrade to FY21e earnings on lower Balama shipments; upgrades on higher graphite prices from FY22e.** FY21e NPAT falls to -US\$54M from -US\$41M; FY22e is up 125% to US\$22M and FY23e up 64% to US\$51M.
- Risked SYR share valuation increases to \$2.37 (0.8x NPV₁₀) from \$2.27** from reducing discounting of Vidalia NPV; Higher Vidalia capacity expansions; and higher graphite prices, all which have more than offset the negative impact of higher capex and greater equity dilution than we had previously forecast.

Recommendation:

- We maintain our Buy and increase our 12-month PT to \$2.37 (prior \$2.27) based on risked valuation.** Catalysts include: 1) Further offtakes; 2) Improving Balama shipments and cash flow; 3) Securing DOE loan; 4) Construction progress of Vidalia; and 5) Vidalia 45ktpa BFS.

Disclosures

The analyst owns 73,690 SYR shares.
Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 1,539,648 SYR shares.
Cranport Pty Ltd owns 3,045,546 SYR shares.
Refer details end of report.

Foster Stockbroking acted as Co-Lead Manager to the underwritten \$250M placement and entitlement offer of 169M SYR shares at \$1.48 in February 2022, for which it will receive fees.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$2.37
Previous	\$2.27
Share price (A\$)	\$1.470
ASX code	SYR
52 week low-high	\$0.91-\$2.13
Valuation - risked (A\$/share)	\$ 2.37
Methodology	risked NPV
Capital structure	
Shares on Issue (M)*	668
Market cap (A\$M)*	982
Net cash (debt) (A\$M)*	226
Performance rights (M)	18
Options (M)	1
Diluted EV (A\$M)*	784
Ave daily volume ('000)	3,159

*Pro-forma - assumes completion of entitlement offer.

Earnings (US\$M)	FY20a	FY21e	FY22e	FY23e
Sales	11	27	167	247
EBITDA adj	-41	-43	45	98
NPAT reported	-61	-54	22	51
NPAT adj	-56	-54	22	51
EPS adj. \$*	-0.13	-0.08	0.02	0.06
PE x	nm	nm	31.8x	14.1x
EV/EBITDA x	nm	nm	15.5x	7.2x

*Adj =underlying

Substantial shareholders

AustralianSuper Pty Ltd	17%
Bruce N Gray	9%
Paradice Investment Management Pty Ltd	9%

Board

Shaun Verner	MD and CEO
James Askew	Non-Executive Chairman
Jose Manuel Caldeira	Non-Executive Director
Lisa Bahash	Non-Executive Director
John Beevers	Non-Executive Director
Sara Watts	Non-Executive Director

Share price graph



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